



2007 AmeriCorps*State Members with Disabilities Income Tax Guidelines



One of the realities of being an AmeriCorps*State member is reporting your living allowance as taxable income. Federal and state income taxes are withheld from living allowance payments and you must file income tax returns to receive any refunds due you. This guide is for AmeriCorps*State members with disabilities who may incur medical and/or “work-related” expenses. Some of these expenses may or may not be tax deductible for you.

These guidelines are intended only to help identify some frequently overlooked tax deductions for which you may qualify. Excerpts were taken from Internal Revenue Service tax publications with sources cited. Always check with a tax preparation service or tax professional to make sure all deductions and tax reporting is accurate and proper.

2007 Internal Revenue Service Publication 907 – Tax Highlights for Persons with Disabilities

IRS Publication 907 provides information on parts of the tax code that may be of particular interest to people with disabilities and those who care for people with disabilities. Topics include income, itemized deductions, tax credits, household employees, and business tax incentives.

What's New

Rehabilitative program payment

VA payments to hospital patients and resident veterans for their services under the VA's therapeutic or rehabilitative programs are no longer included in income.

Income (page 3)

All income that isn't specifically excluded by law is taxable. Social Security Disability Income (SSDI) is taxable, but Supplemental Security Income (SSI) is not considered taxable under IRS regulations. Unemployment benefits are taxable, while worker's compensation is not taxable.

In most cases, AmeriCorps members who receive a living allowance and disability income will not pay income taxes on their disability income because the total taxable income remains below the taxable limit. Part of your benefits may be taxable if your total other income, including tax-exempt interest, plus half of your benefits, is more than:

- 1) \$25,000 for single, head of household or qualifying widow(er) filers;
- 2) \$25,000 for filers who are married filing separately and lived apart from your spouse for all of the tax year;
- 3) \$32,000 for married couples filing jointly; or
- 4) \$0 for those who are married filing separately and lived with your spouse at any time during the tax year.

Supplemental security income (SSI) payments

Social security benefits do not include SSI payments, which are not taxable. Do not include these payments in your income.

Dependent Care Benefits (page 3)

You can exclude from income benefits provided under your employer's qualified dependent care benefit plan. You may be able to exclude up to \$5,000 (\$2,500 if married filing separately). The care must be provided for:

1. Your qualifying child who is your dependent and who was under age 13 when the care was provided,
2. Your spouse who was physically or mentally not able to care for himself or herself and lived with you for more than half the year, or
3. A person who was physically or mentally not able to care for himself, or herself, lived with you for more than half the year, and either:
 - a. Was your dependent, or
 - b. Would have been your dependent except that:
 - i. He or she received gross income of \$3,400 or more,
 - ii. He or she filed a joint return, or
 - iii. You, or your spouse if filing jointly, could be claimed as a dependent on someone else's 2007 return.

Disability Pensions (page 4)

Generally, you must report as income any amount you receive for your disability through an accident or health insurance plan that is paid for by your employer. If both you and your employer pay for the plan, report as income only the amount you receive for your disability that is due to your employer's payments. Your employer should be able to give you specific details about your pension plan and tell you the amount you paid for your disability pension. If you paid the entire cost of the plan, do not report as income any amounts you get from the plan for your disability. *See Publication 525, Taxable and Nontaxable Income, for more information.*

Military and Government Disability Pensions (page 5)

Generally, you must report disability pensions as income, but do not include certain military and government disability pensions. *For information about military and government disability pensions, see Publication 525, Taxable and Nontaxable Income.*

VA disability benefits

Do not include disability benefits you receive from the Department of Veterans Affairs (VA) in your gross income. If you are a military retiree and do not receive your disability benefits from the VA, *see IRS Publication 525, Taxable and Nontaxable Income, page 16 for more information.*

Do not include in your income any veterans' benefits paid under any law, regulation, or administrative practice administered by the VA. These include:

- Education, training, or subsistence allowances,
- Disability compensation and pension payments for disabilities paid either to veterans or their families,
- Grants for homes designed for wheelchair living,
- Grants for motor vehicles for veterans who lost their sight or the use of their limbs,
- Veterans' insurance proceeds and dividends paid either to veterans or their beneficiaries, including the proceeds of a veteran's endowment policy paid before death,
- Interest on insurance dividends left on deposit with the VA,
- Benefits under a dependent-care assistance program, or
- The death gratuity paid to a survivor of a member of the Armed Forces who died after September 10, 2001.

Rehabilitative program payments

VA payments to hospital patients and resident veterans for their services under the VA's therapeutic or rehabilitative programs are not included in income.

Other Payments

You may receive other payments that are related to your disability. The following payments are not taxable.

- Benefit payments from a public welfare fund, such as payments due to blindness.
- Workers' compensation for an occupational sickness or injury if paid under a workers' compensation act or similar law.
- Compensatory (but not punitive) damages, for physical injury or physical sickness.
- Disability benefits under a "no-fault" car insurance policy for loss of income or earning capacity as a result of injuries.
- Compensation for permanent loss or loss of use of a part or function of your body, or for your permanent disfigurement.

2007 Instructions for IRS Form 1040, Line 39a – Exemption for persons 65 or Older and/or Blind

The first disability-related item on Form 1040 is the extra tax exemption for persons 65 and older and/or blind.* Members younger than 65 who are blind or partly blind and file as single may take a **\$6,650** deduction rather than the single standard deduction of **\$5,350**. Members 65 or older who file as single may take a deduction of **\$6,650**. Those 65 or older **and** who are blind or partly blind may take a **\$7,650** deduction. Amounts will vary depending on filing status (*see chart, IRS Publication 501, Exemptions, Standard Deduction, and Filing Information, page 22*).

* To qualify for the blind exemption, you must obtain a certified statement from an eye doctor or registered optometrist attesting that your vision is no better than 20/200 in the better eye with glasses or contact lenses, or your field of vision is not more than 20 degrees. (IRS Publication 501, Exemptions, Standard Deduction, and Filing Information, page 20).

2007 IRS Publication 501 – Exemptions, Standard Deduction and Filing Information

What's New for 2007

Who must file

Generally, the amount of income you can receive before you must file a tax return has increased. Table 1 shows the filing requirements for most taxpayers.

Standard deduction

The standard deduction for most taxpayers who do not itemize their deductions on Schedule A of Form 1040 is higher in 2007 than it was in 2006. The amount depends on your filing status. The 2007 Standard Deduction Tables shown near the end of this publication as Tables 7, 8, and 9 can help you figure the amount of your deduction.

The next decision to make is whether to itemize deductions or take the standard deduction. You should itemize deductions if your total deductions are more than the standard deduction amount (\$5,350 for single filers). You also should itemize your deductions if you do not qualify for the standard deduction. It is usually a good use of time to calculate your itemized deductions to see if it's more than the standard deduction to make sure you use the method that benefits you more.

Items that may qualify as deductions include out-of-pocket medical and dental expenses that total at least 7.5 percent of your adjusted gross income (AGI); mortgage interest and taxes paid on your home; large, unreimbursed fire or theft losses; out-of-pocket business expenses; certain miscellaneous expenses such as union dues; and Impairment-Related Work Expenses (IRWE). IRWEs are not subject to the 7.5 percent AGI exclusion.

2007 IRS Publication 502 – Medical and Dental Expenses

What's New

Standard mileage rate

The standard mileage rate allowed for operating expenses for a car when you use it for medical reasons is 20 cents per mile. See *Transportation* under *What Medical Expenses Are Includible*.

Medical expenses include unreimbursed costs of diagnosis, cure, mitigation, treatment, or prevention of disease and the costs for treatments affecting any part or function of the body. These costs include equipment, supplies and diagnostic devices. Other deductible medical expenses may include medical insurance premiums and the cost of transportation to get medical care. Again, you may only deduct medical expenses that exceed 7.5 percent of your AGI.

The following specific medical expenses not covered by insurance and not reimbursed to you may be deductible: ambulance service; bandages; prescription drugs; special construction and equipment installed in a home such as ramps, widening doorways, support bars or lowering kitchen cabinets; crutches, canes and wheelchairs; diabetic supplies; eye exams and glasses; the costs of buying, training, and maintaining a service animal; hearing aids and batteries; laboratory fees; and special telephone equipment for the hearing impaired.

Unreimbursed dental expenses also may be deducted, including dentists' fees, X-rays, fillings, braces and dentures.

You may also itemize out-of-pocket transportation-related expenses, such as gas, oil, parking fees and tolls, for vehicles used for medical reasons. If you do not want to calculate your actual expenses, you can use a standard rate of 18 cents a mile for use of a car for medical purposes. You can include parking fee and tolls whether you use the actual expenses or use the standard mileage rate. Always be prepared to prove the mileage claimed.

Some items NOT deductible as medical expenses include babysitting while you receive medical treatment; household help, even if recommended by a doctor; non-prescription drugs and medicines; and maternity clothes.

Allowable medical deductions will vary greatly from one individual to the next, so it is best to have a system to preserve all medical receipts.

2007 IRS Publication 463 – Travel, Entertainment, Gift, and Car Expenses

People with disabilities may take a business deduction for expenses necessary for you to be able to work. These business deductions for impairment-related work expenses (IRWE) are NOT subject to the 7.5 percent AGI limit. Impairment-related work expenses are your allowable expenses for attendant care at your workplace and other expenses in connection with your workplace that are necessary for you to be able to work. (*Publication 463, Travel, Entertainment, Gift, and Car Expenses, page 34; Publication 502, Medical and Dental Expenses, page 24; and Publication 529, page 12-13*).

For federal tax purposes, a person is considered to have a disability who:

- 1) Has a physical or mental disability, such as blindness or deafness, that functionally limits employment; or
- 2) Has a physical or mental impairment, such as a vision or hearing impairment, that substantially limits one or more major life activities, such as manual tasks, walking, speaking, breathing, learning or working.

Impairment-related expenses include business expenses not specifically covered under other tax exemptions that are necessary to perform work functions satisfactorily; including routinely needed goods and services used in your personal activities. (*Publication 502 – Medical and Dental Expenses, page 24*).

AmeriCorps members should list impairment-related work expenses on Form 2106, Business Expenses, or Form 2106-EZ, Unreimbursed Employee Business Expenses. Enter on Schedule A (Form 1040), line 28, that part of the amount on Form 2106, line 10, or Form 2106-EZ, line 6, that is related to your impairment. Enter the amount that is unrelated to your impairment on Schedule A (Form 1040), line 21. Your impairment-related work expenses are not subject to the 2%-of-adjusted-gross-income limit that applies to other employee business expenses (*Publication 502 – Medical and Dental Expenses, page 24; Publication 529 – Miscellaneous Deductions, Miscellaneous Deductions, page 12-13*).

2007 IRS Publication 524 – Credit for the Elderly or Disabled, pages 2-4

Don't make the mistake of believing you receive a tax credit simply for being elderly or having a disability. To qualify for this credit, you must meet two criteria:

1. Be a **qualified individual** (a U.S. citizen or resident alien) and **ONE** of the following applies:
 - A. you were 65 or older at the end of 2007; or
 - B. Younger than 65 at the end of 2007, and **ALL** of the following applies:
 - a. Retired on permanent, total disability; and
 - b. Received taxable disability income for 2007 that
 - i. was included under your employer's accident or health plan or pension plan; and
 - ii. is included in your income as wages or payments for the time you are absent from work because of permanent and total disability; and
 - iii. You had not reached mandatory retirement age by Jan. 1, 2007.
2. Both your AGI and nontaxable pensions are less than the income limits.

The Credit for the Elderly or the Disabled is calculated on Schedule R for form 1040 or Schedule 3 for form 1040A. You can take the credit only if you file Form 1040 or Form 1040A. You cannot take the credit if you file Form 1040EZ.

2007 Publication 529 – Miscellaneous Deductions

You must reduce the total of most miscellaneous itemized deductions by 2 percent of your AGI. Miscellaneous deductions that may be subject to the 2 percent limit are separated into three categories:

1. Unreimbursed employee expenses;
2. Tax preparation fees; and
3. Other expenses.

Some miscellaneous itemized deductions not subject to the 2 percent limit include IRWE (Impairment-Related Work Expenses). (*Publication 529 – Miscellaneous Deductions, page 12-13*).

Always review your filing status and circumstances carefully and consult a tax professional with any questions about income and deductions. Free tax services are available in some areas to help people with disabilities prepare their taxes.

Again, these guidelines are intended only to help identify some frequently overlooked tax deductions for which you may qualify. Excerpts were taken from Internal Revenue Service tax publications with sources cited. Always check with a tax preparation service or tax professional to make sure all deductions and tax reporting is accurate and proper.

The following references were used to prepare this tax guide for AmeriCorps members with disabilities. You can find all of these documents, and many more, online at www.irs.gov.

2007 Publication 907 – Tax Highlights for Persons with Disabilities

2007 Instructions for Form 1040, Line 39a – Exemption for persons 65 or Older and/or Blind

2007 Publication 501 – Exemptions, Standard Deduction, and Filing Information

2007 Publication 502 – Medical and Dental Expenses

2007 Publication 463 – Travel, Entertainment, Gift, and Car Expenses

2007 Publication 524 – Credit for the Elderly or Disabled

2007 Publication 529 – Miscellaneous Deductions